



DEPARTMENT OF THE ARMY
HEADQUARTERS MILITARY TRAFFIC MANAGEMENT COMMAND
200 STOVALL STREET
ALEXANDRIA, VA 22332-5000



Personal Property Program Branch

Department of Defense Approved Carriers:

This letter is to serve as a reminder that financial statements are due within 120 days after the close of your 2002 financial books.

Reference Federal Register Notice Volume 67, Number 5, dated March 19, 2002, regarding financial ratios: carriers currently participating in the program must have a quick ratio of 1:1 or better, and a debt to equity ratio of 4:1 or less is desired.

The following definitions are provided for clarification. If there are further questions about the definitions, or how to best present financial data, carriers should consult their accountants.

Quick Ratio (1:1) The quick ratio, measures the ability of a business to meet their current bills. Quick ratio is cash, plus receivables divided by current liabilities. This is similar to the "current ratio" with the exception that inventory and prepaids are subtracted from the total current assets prior to making the computation. These items are deleted prior to computing the ratio because inventory and prepaids are not easily converted to cash to pay debts. Further, if a company needs to liquidate inventory or prepaids to pay bills, they are in liquidation process and not really a going concern. MTMC recognizes the industry's uniqueness in that many transportation related costs are incurred and paid by the carrier after the shipment is picked-up from the member and prior to delivery or placement in Storage in Transit (SIT). This lag time causes a mismatch between revenues and expenses. If the expenses are included in the financial statements and identified separately as prepaid transportation expenses or unbilled receivables, MTMC will consider them in the Quick Ratio analysis.

Debt to Equity Ratio (4:1) Debt to equity is total liabilities divided by the company's equity. Financial Statement Requirements: Annually, carriers must provide audited financial statements with an auditor's report, or reviewed financial statements with an accountant review report. Financial statements must be prepared according to generally accepted accounting principles using the accrual basis, including balance sheets and profit/loss statements. Financial statements, audit, or review memorandums must include all referenced footnotes. Financial statements must be transmitted by fax only, to (703) 428-3321, reflecting the signature of the company's executive stating that they are correct to the best of their knowledge. These statements and other factors will be evaluated by MTMC to determine the need for any additional actions.

Financial year 2002 statements must be submitted within 120-calendar days, of year-end, normally defined as December 31, 2002. Under this scenario, the financial statements would be submitted no later than May 1, 2003. If a company closes their books on a fiscal year basis (i.e., other than December 31, 2002), then financial statements and reports should be submitted within 120 calendar days of that date. For example, a carrier currently participating in the program closing out their books October 31, 2002, would be required to submit the financial statements no later than March 1, 2003. Companies desiring to change their report dates must coordinate this with MTMC's Internal Review Office at (703) 428-3205.

The financial statements must document the business operations of the single business entity or organization that seeks to qualify to do business with the DOD. Combined or consolidated statements that embed the finances of other companies will not be accepted. Letters of guarantee from a parent company will also not be accepted. However, for reporting purposes, a carrier may submit one document that reflects several companies separate financial information, as long as the financial information is reported in each individual company's name and reflects that company's account information. Each individual company must comply with desired ratio minimums. MTMC will not accept truly consolidated reports where there is no separation from one company to another.

If MTMC does not receive financial statements within the 120-calendar day time frame, the company may be placed in nonuse due to non-compliance with program requirements. No *pro forma* statements will be accepted in lieu of actual financial statements. Additionally, MTMC reserves the right to obtain services from an independent third party source to conduct financial risk analysis of carrier's financials. This analysis will compare the company with appropriate industry norms. This information may be used in a carrier review board action to assist in the determination of financial risk to the government.

Should you have any questions, please call (703) 428-3279, or email ppqual@mtmc.army.mil.

Sincerely,

//Signature on File//
Donna M. Jack
Chief, Personal Property Program
Branch